STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

BEAR RIVER MUTUAL INSURANCE COMPANY
of
Murray, Utah

as of

December 31, 2006

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November 16, 2007

Honorable D. Kent Michie, Commissioner
State of Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114-6901

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination of the financial condition and business affairs of

Bear River Mutual Insurance Company
Of
Murray, Utah

a nonassessable not-for-profit mutual property and casualty insurance company, hereinafter referred to as the Company, was conducted as of December 31, 2006.

SCOPE OF EXAMINATION

Period Covered by Examination

The Utah Insurance Department's (Department) last financial examination of the Company was conducted as of December 31, 2003. The current examination covers the period from January 1, 2004, through December 31, 2006, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination included a general review and analysis of the Company's operations and a determination of its financial condition as of December 31, 2006. It was conducted in accordance with standards prescribed in the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, NAIC Accreditation Standards and Department policy. It included tests of the accounting records and a review of the Company's affairs and practices to the extent deemed necessary. Permitted assets and required liabilities were valued in accordance with laws, rules, and procedures prescribed by the state of Utah.

This examination was conducted under the association plan of the National Association of Insurance Commissioners (NAIC) in accordance with the Financial Condition Examiners Handbook. It also incorporated top-down, risk-focused examination techniques.

The initial phase of the examination focused on evaluating the Company's governance and control environment, as well as business approach, to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate. The following functional areas were selected for examination: Management, Income, Underwriting, Losses & Benefits, Expenses and Investments.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering the mitigating factors. Mitigating factors considered were corporate governance and the control environment in addition to work performed by the Company's external audit functions. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk examination procedures were reduced where considered appropriate.

An independent consulting actuary was retained to perform the actuarial phases of the examination. A data processing specialist was retained to review the controls in the Company's electronic information systems. A market conduct examiner was assigned from the Department's Market Conduct Division to perform the Insurance Products and Related Practices section of the examination.

The Company retained the services of a certified public accounting firm to audit its financial records for the period under examination. The firm provided requested working papers prepared in connection with its audits. The firm's working papers were given consideration in adoption of the examination plan and incorporated into examination procedures when deemed appropriate. The examination relied upon the firm's cash and investment confirmations, and correspondence regarding pending or threatened litigation, claims, and assessments received from the Company's legal representatives. Transaction testing performed by the firm was also considered for examination purposes.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and has been included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

No changes in surplus were made as a result of the previous examination. Other than noted in the Accounts and Records, and Summary sections of this report, the Company has addressed items of significance identified in the prior examination report.

HISTORY

General

The Company was organized August 21, 1909, as Bear River Mutual Fire Insurance Company under the provisions of Chapter 95, Session Laws of the state of Utah, 1909. The Company changed its name to Bear River Mutual Insurance Company on July 8, 1939. Subsequent to its organization, but prior to July 1, 1986, the Company operated under U.C.A. Title 31, Chapter 21. Effective July 1, 1986, the Company was brought under the provisions of U.C.A. Title 31A, Chapter 5, "Domestic Stock and Mutual Insurers" as a not-for-profit mutual insurer. The Company is licensed to write property, liability and vehicle liability lines of business in the state of Utah.

Article III, Section 3.02 of the Company's bylaws were amended effective March 4, 2005, to increase the number of directors from five to six.

Membership

The Amended Articles of Incorporation provide that every policyholder shall be a member of the corporation. Membership begins when an insurance policy takes effect and ends upon cancellation or expiration of the policy. Each member is entitled to one vote.

Dividends to Members

No dividends were declared or paid during the examination period.

Management

Board of directors serving as of December 31, 2006, were:

Name Residence	Principal Occupation
Gary Richard Chandler, Chair South Jordan, Utah	Consultant
Robert Alma Burton, Secretary Bountiful, Utah	Corporate Council for Burton Lumber Company
Thomas Alma Duffin Salt Lake City, Utah	Attorney
James Curtis Breitweiser South Ogden, Utah	Principal/Owner of P&C Insurance Agency
Ross Cox Elliott Murray, Utah	Consultant
Don Herbert Adams Orem, Utah	President of Bear River Mutual Insurance Company

Board of directors committee members serving as of December 31, 2006, were:

Investment Committee	Nominating Committee
Robert Alma Burton, Chair	Gary Richard Chandler, Chair
Gary Richard Chandler	Thomas Alma Duffin
Ross Cox Elliott	James Curtis Breitweiser
Thomas Alma Duffin	Don Herbert Adams
James Curtis Breitweiser	
Don Herbert Adams	

Audit Committee

Thomas Alma Duffin, Chair
Robert Alma Burton
Ross Cox Elliott

Officers serving the Company as of December 31, 2006, were:

Officer	Office
Don Herbert Adams	President
Eric Richard Ericksen	Chief Operating Officer
Duffy Edward Pingree	Secretary/Treasurer/Chief Financial Officer
Craig Earl Densley	Vice President – Underwriting
Carma Adrene Coleman	Vice President – Administrative Services
Sheryl Boehme	Vice President – Product Development and Analysis
Kathryn Jensen	Vice President – Claims

Conflict of Interest Procedure

The Company has a written conflict of interest policy that does not allow an employee to take advantage of a business opportunity of the Company or use his or her position as a Company employee to obtain any personal gain. In addition, an employee may not accept an appointment as a director or officer of another company, which has business dealings with, or is in competition with the Company.

Conflict of interest disclosure statements were executed for each of the years in the examination period. During a Board of Directors meeting held November 16, 2007, the Board approved a modification to the Code of Ethics requiring the execution of disclosure statements on an annual basis. In November 2007, the disclosure statements were strengthened and forms for each of the key officers and directors were executed.

Corporate Records

A review of member meeting minutes and Board meeting minutes indicated that actions of the Board adequately approved and supported the Company's transactions and events. The entire Board functioned as the Investment Committee. Audit Committee meeting minutes did not indicate the committee adequately performed the duties assigned to it by Article III, Section 3.14 of the Company's Bylaws. In addition, there was no evidence in the Audit Committee meeting minutes to show that the Audit Committee maintained an overview of the audit activities, systems, and staff of the Company as required by U.C.A. § 31A-5-412(2)(c) and the Bylaws. Meeting minutes of only one Audit Committee Meeting were provided for examination. Management stated that additional committee meetings were held, but that minutes were not kept.

The Company promptly furnished a copy of the prior Department financial examination report to each member of its Board in accordance with U.C.A. § 31A-2-204(8).

Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance

The Company was not involved in any of these transactions during the examination period.

Surplus Debentures

The Company did not issue, hold or retire any debentures during the examination period.

AFFILIATED COMPANIES

The Company is not a member of an insurance holding company system.

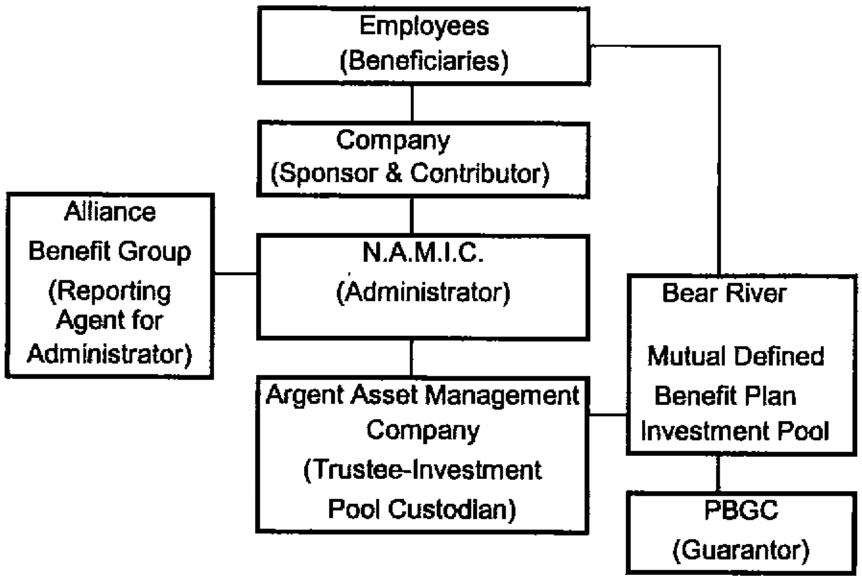
FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity insurance suggested by the NAIC for the Company was $800,000. At the examination date, the Company had fidelity coverage with a single loss limit of $600,000 and a single loss deductible of $25,000. A fidelity insurance coverage deficiency was noted in the prior report of examination. Prior to the conclusion of the examination, the Company's fidelity insurance coverage was increased to $800,000.

Combined professional liability and directors and officers liability insurance had an aggregate limit of $10,000,000 with a $100,000 deductible. In addition, the Company was insured under property, liability, and workers' compensation policies.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Full-time employees are enrolled in the Company's defined benefit pension plan (Plan) after they have completed one year employment, have reached the age of 21 and work more than 1,000 hours a year. The Plan is a retirement plan sponsored by the National Association of Mutual Insurance Companies to provide monthly retirement income to participants. The Plan is fully funded. Under Statement of Statutory Accounting Principals (SSAP) No. 89, the Company is responsible for periodic benefit costs and a $247,524 provision for the costs was made in the 2006 Annual Statement. The following chart identifies participants in the administration of the Plan and illustrates why it is only necessary for the Company to recognize periodic benefit costs:



Company employees are covered by a qualified 401(k) defined contribution pension plan sponsored by the Company. The Company matches up to 4% of each eligible participant's compensation for the plan year. In addition, the Company provides health, dental, and life insurance to its full-time employees and their families. Long-term and short-term disability insurance is provided to employees.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company was required to maintain a statutory deposit equal to its required permanent surplus in the amount of $1,000,000. Bonds and mutual fund shares with an aggregate market value of $1,166,678 were held on deposit in Utah for the benefit of all policyholders, claimants and creditors of the Company.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company used Insurance Services Office (ISO) policy forms for its fire and homeowners multiple peril policies, but developed its own policy forms for automobile physical damage and liability coverage. Policy Forms prepared by the Mutual Reinsurance Bureau were used for its umbrella liability policies. The Company does not maintain an inventory of policy forms. Forms are printed as required. Forms were filed with the Department prior to use. The Company's risk retention limits for all lines of business, other than business classified as personal umbrella liability business, was $100,000. Effective January 1, 2007, the retention was increased to $200,000 for property risks and to $150,000 for casualty risks. The risk retention limit on personal umbrella liability business was $50,000.

Territory and Plan of Operation

The Company was licensed to write property, liability and vehicle liability risks only in the state of Utah. During the examination period, the Company wrote fire, homeowners multiple peril, other liability, private passenger auto liability, and auto physical damage lines of business.

The Company's marketing operations were conducted by approximately 60 independent agency producers located throughout the state of Utah. These producers had authority to issue binder coverage for a limited period of time, but were not authorized to execute policies on behalf of the Company. The Company billed the insured directly for premiums.

Advertising and Sales Material

The Company's advertising and sales materials were limited to materials and media designed to enhance name recognition. Advertising consisted of telephone book listings, promotional items and radio and television commercials. Advertising and sales materials were not directly related to specific insurance policies.

Treatment of Policyholders

The Company maintained control over policyholder complaints. Separate procedures were established for Department complaints and all other written complaints. All written complaints were entered into a computerized spreadsheet. Nine complaints were filed with the Department in 2004, of which three were processed as inquiries only. Seven complaints were filed with the Department in 2005, and four complaints in 2006. All of the complaints were resolved and closed.

REINSURANCE

Assumed

As of December 31, 2006, the Company assumed reinsurance under a Regional Reciprocal Catastrophe Pool Reinsurance Agreement. Under the agreement, the Company assumed a one percent (1%) share of loss or losses incurred by Mutual Reinsurance Bureau (MRB) under any of its aggregate and catastrophe excess contracts or similar covers (Original Agreements) written under the Regional Reciprocal Catastrophe Pool. All Original Agreements were the top layers of each ceding insurer's reinsurance program. The Company's maximum assumed liability on any one Original Agreement was $250,000 on any one occurrence when the Original Agreement was written on an occurrence basis or $250,000 in the aggregate for one agreement year when the Original Agreement was written on an aggregate basis.

Ceded

The Company maintained a reinsurance program placed with and administered by MRB. Pursuant to reinsurance agreements in effect as of December 31, 2006, five member companies each reinsured a one-fifth share of the Company's property risks and four member companies each reinsured a one-forth share of the Company's casualty risks. Four member companies each reinsured a one-forth share of the Company's personal umbrella business. The particulars of the arrangements are stated below:

- Reinsurance coverage type: Property per risk excess of loss reinsurance for insurance in force classified by the Company as fire, homeowners multiple peril (property perils only), and inland marine. The agreement provided two layers of coverage for loss or losses in excess of $100,000, subject to a maximum of $2,100,000 on any one risk or $4,600,000 on any one-loss occurrence.

- Reinsurance Coverage type: Casualty excess of loss reinsurance for insurance in force classified by the Company as homeowners multiple peril (casualty perils only), automobile liability, property damage, medical payments, underinsured and uninsured motorists, personal injury protection plans except physical damage to insured vehicles and comprehensive personal liability including medical payments. The agreement provided two layers of coverage for loss or losses in excess of $100,000, subject to a maximum of $1,900,000 on any one-loss occurrence. The maximum one-loss occurrence related to terrorism was $2,900,000.

- Reinsurance Coverage type: Property catastrophe excess of loss reinsurance for insurance in force classified by the Company as fire, allied lines, homeowners multiple peril (property perils only), inland marine and auto physical damage. The agreement provided four layers of coverage for loss or losses in excess of $1,500,000, subject to a maximum of $38,500,000 on any one-loss occurrence.

- Reinsurance Coverage type: Personal umbrella reinsurance for insurance in force classified by the Company as personal umbrella liability business. The Company retained five percent (5%) of the first $1,000,000 in coverage. The reinsurers assumed a maximum liability of $1,950,000 for any one original insured.

The Member Company Insolvency section of Article 10 of the MRB Articles of Association, Bylaws and Assuming Contract, effective January 1, 2006, provides that the remaining companies will assume the reinsurance risk of an insolvent member of MRB.

ACCOUNTS AND RECORDS

The records necessary for the Company's operations were maintained on a centralized computer record processing DELL 2650 server protected by the Company's secured network. Ancillary records maintained on additional servers, which process document and database services, supplemented the system.

The examination trial balance, as of December 31, 2006, was prepared from an electronic copy of the Company's general ledger. Account balances were traced to annual statement exhibits and schedules without exception. Individual balance sheet account balances for the examination period were examined in accordance with standards prescribed in the NAIC Financial Condition Examiners Handbook.

Accounts and records deficiencies noted by the examination include the following:

1. A significant majority of the Company's invested assets were not held through an agreement that complied with Utah Administrative Code (U.A.C.) Rule R590-178. The Company brought the agreements into compliance during the examination.

2. The policy administration system the Company currently uses will not track premiums over ninety days past due. NAIC SSAP No. 6, Section 9 requires that to the extent that there is no related unearned premium, any uncollected premium balances over ninety days past due shall be non-admitted. This was disclosed in the prior report of examination.

3. Uncollected premium and premium installments booked but deferred and not yet due were combined and reported on Line 13.1 of the Company's 2006 Annual Statement. NAIC Annual Statement Instructions require that premium installments booked but deferred and not yet due be disclosed separately on Line 13.2. This was disclosed in the prior report of examination.

4. The Company does not record any unpaid reserves for voluntary pool exposures. Although the amounts have not been substantial, the Company should acknowledge its share of the liabilities from the catastrophe and D&O pools.

5. Interrogatory 24.02 requires disclosure of investment custodial agreements that are not in compliance with the NAIC Financial Condition Examiner's Handbook. The Interrogatory did not identify The Custody Agreement Addendum to Investment Management Agreement with Wells Capital Management Inc. A significant majority of Bear River's invested assets were held under the agreement, which was not consistent Rule R590-178.

6. The Company's response to Interrogatory #13 in the Interrogatories contained in the2004, 2005 and 2006 Annual Statement was not accurate. It stated that a complete, permanent record was maintained of the proceedings of the Board and all subordinate committees thereof. Audit Committee meeting minutes were provided for examination for only one meeting during the examination period. No Nominating Committee meeting minutes were provided for examination.

7. The Company's response to Interrogatory #2.1 in the Interrogatories contained in the 2004 and 2005 Annual Statements was not correct. The bylaws were amended in March 2005. Interrogatory #2.1 in the 2005 Annual Statement reported that no changes had been made in 2005. In November 2004, the Board approved a change to the bylaws and Interrogatory #2.1 in the 2004 Annual Statement reported that the change had actually been made.

FINANCIAL STATEMENT

The Company's financial condition as of December 31, 2006, and the results of its operations during the twelve months then ended as determined by examination, are reported in the following financial statements:

Balance Sheet as of December 31, 2006
Underwriting and Investment Exhibit Statement of Income – January 1, 2006 through December 31, 2006
Surplus – January 1, 2004 through December 31, 2006

The accompanying Comments on Financial Statement are an integral part of these statements.

Bear River Mutual Insurance Company
Balance Sheet
As of December 31, 2006

ADMITTED ASSETS

	Amount	Notes
Bonds	$69,827,467	
Preferred stocks	497,827	
Common stocks	45,484,107	
Real estate occupied by the Company	4,857,037	
Cash and short-term investments	2,172,935	
Receivables for securities	238,870	
Investment income due and accrued	1,011,578	
Uncollected premiums and agents' balances in course of collection	13,743,382	
Other amounts receivable under reinsurance contracts	1,613,077	
Current federal income tax recoverable and interest thereon	459,537	
Guaranty funds receivable or on deposit	629,100	
Electronic data processing equipment and software	197,280	
Total assets	140,732,197	

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	24,629,375	
Loss adjustment expenses	3,895,000	
Commissions payable, contingent commissions and other similar charges	703,013	
Other expenses, excluding taxes, licenses and fees	549,093	
Taxes, licenses and fees, excluding federal income taxes	1,084,973	
Net deferred tax liability	42,374	
Unearned premiums	38,761,670	
Advance premiums	1,164,079	
Ceded reinsurance premiums payable	9,357	
Amounts withheld or retained by company for account of others	81,713	
Payable for securities	213,400	
Total liabilities	71,134,047	
Unassigned funds (surplus)	69,598,150	
Surplus as regards policyholders	69,598,150	(1)
Total liabilities, surplus and other funds	$140,732,197	

Bear River Mutual Insurance Company
Underwriting and Investment Exhibit Statement of Income
January 1, 2006 through December 31, 2006

	Amount
Underwriting income:	
Premiums earned	$72,458,891
Deductions:	
Losses incurred	41,390,622
Loss expenses incurred	5,363,240
Other underwriting expenses incurred	19,839,290
Total underwriting deductions	66,593,152
Net underwriting gain	5,865,739
Investment income:	
Net investment income earned	3,169,153
Net realized capital losses	1,398,592
Net investment gain	4,567,745
Other income:	
Finance and service charges not included in premiums	369,284
Gain on sale of furniture and equipment	(16,558)
Total other income	352,726
Net income before federal income taxes	10,786,210
Federal taxes incurred	2,936,656
Net income	$ 7,849,554

Bear River Mutual Insurance Company
Surplus
January 1, 2004 through December 31, 2006

	2004	2005	Per Exam 2006
Surplus as regards policyholders, December 31 prior year	$43,578,172	$50,703,913	$58,653,513
Net income (loss)	5,330,276	7,467,193	7,849,554
Net unrealized capital gains (losses)	1,622,951	420,182	2,547,006
Change in net deferred income tax	314,586	95,766	260,455
Change in nonadmitted assets	(142,072)	(33,541)	287,622
Net change in capital and surplus for the year	7,125,741	7,949,600	10,944,637
Surplus as regards policyholders, December 31 current year	$50,703,913	$58,653,513	$69,598,150

COMMENTS ON FINANCIAL STATEMENT

(1)Surplus **$69,598,150**

U.C.A. § 31A-5-211 requires the Company to maintain permanent surplus in the amount of $1,000,000. In accordance with U.C.A. 31A-17, Part VI, the Company's total adjusted capital was $69,598,150 and authorized control level Risk-Based Capital (RBC) was $5,937,633.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

1. Audit Committee meeting minutes were not maintained for all meetings. Audit committee meeting minutes did not evidence that the committee's performance of duties assigned it in Section 3.14 of the Company's bylaws. Audit Committee meeting minutes did not evidence the Committee's compliance with U.C.A. § 31A-5-412(2)(c). This deficiency was noted in the prior report of examination. (CORPORATE RECORDS)

2. As of December 31, 2006, the minimum fidelity insurance suggested by the NAIC for the Company was $800,000. As of that date, the Company had fidelity coverage with a single loss limit of $600,000 and a single loss deductible of $25,000. Prior to the conclusion of the examination, the Company's fidelity insurance coverage was increased to $800,000. A fidelity insurance coverage deficiency was also noted in the prior report of examination. (FIDELITY BOND AND OTHER INSURANCE)

3. A significant majority of the Company's invested assets were not held under a custodial agreement that complied with U.A.C. Rule R590-178 as of December 31, 2006. The custodial agreements were brought into compliance with U.A.C. Rule R590-178 prior to the conclusion of the examination. The Board approved the amended custodial agreements on November 26, 2007 (ACCOUNT AND RECORDS)

4. Some deficiencies were noted in the examination's review of the Company's accounts and records. (ACCOUNT AND RECORDS)

5. U.C.A. § 31A-5-211 requires the Company to maintain permanent surplus in the amount of $1,000,000. In accordance with U.C.A. § 31A-17, Part VI, the Company's total adjusted capital was $69,598,150 and authorized control level Risk-Based Capital (RBC) was $5,937,633. (COMMENTS ON FINANCIAL STATEMENT - Surplus)

ACKNOWLEDGEMENT

The assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company are acknowledged. Shane Sadler, Financial Analyst, Hermoliva Abjar, Financial Examiner, Malis Rasmussen, Financial Examiner, and Nancy Askerlund, Market Conduct Examiner, participated in this examination. R. Michael Lamb, FCAS, MAAA, Consulting Casualty Actuary, performed the actuarial phases of the examination. Marlin D. Kroenke, CPA, CISA, CFE, AES, Huff Thomas & Company, reviewed controls in the Company's electronic data processing systems. Colette M. Hogan, CFE, CPM Assistant Chief Examiner, supervised the examination.

Respectfully submitted,

John Kay, CFE, CIE
Examiner-in-charge, Representing the
Utah Insurance Department